

UNITED STATES DISTRICT COURT
WESTERN DISTRICT OF WASHINGTON
AT SEATTLE

MICROSOFT CORPORATION,

Plaintiff,

v.

MOTOROLA, INC., et al.,

Defendants.

MOTOROLA MOBILITY, INC., et
al.,

Plaintiffs,

v.

MICROSOFT CORPORATION,

Defendant.

CASE NO. C10-1823JLR

ORDER

I. INTRODUCTION

This matter is before the court on Defendants Motorola, Inc., Motorola Mobility, Inc., and General Instrument Corporation's (collectively, "Motorola") motion for partial summary judgment dismissing Microsoft's claim for a reasonable and non-discriminatory ("RAND") license agreement to be determined by the court (Mot. (Dkt. # 362)).¹ Having considered Motorola's motion, Microsoft's response (Resp. (Dkt. # 374)), and Motorola's reply (Reply (Dkt. # 377)), and considering itself fully advised, the court GRANTS in part and DENIES in part Motorola's motion (Dkt. # 362).

II. BACKGROUND

A. The IEEE and the ITU as Standard Setting Organizations

Microsoft and Motorola are both members of the Institute of Electrical and Electronics Engineers ("IEEE") and the International Telecommunication Union ("ITU"). The IEEE and the ITU, neither of which are parties to the instant dispute, are international standards setting organizations. Standards setting organizations play a significant role in the technology market by allowing companies to agree on common technological standards so that all compliant products will work together. Standards lower costs by increasing product manufacturing volume, and they increase price competition by eliminating "switching costs" for consumers who desire to switch from products manufactured by one firm to those manufactured by another.

¹ While the parties in this action have both filed affirmative claims in this matter, because Microsoft filed the complaint initiating the instant action, for purposes of this order, the court names Microsoft as the "plaintiff."

One complication with standards is that it may be necessary to use patented technology in order to practice them. If a patent claims technology selected by a standards setting organization, the patent is called an “essential patent.” Here, Motorola is the owner of numerous patents “essential” to certain standards established by the IEEE and the ITU. (*See* 10/21/10 Motorola Offer Ltr. (Dkt. # 79-5); 10/29/10 Motorola Offer Ltr. (Dkt. # 79-6) (see list of attachments).) In order to reduce the likelihood that owners of essential patents will abuse their market power, many standards setting organizations, including the IEEE and the ITU, have adopted rules related to the disclosure and licensing of essential patents. The policies often require or encourage members of the standards setting organization to identify patents that are essential to a proposed standard and to agree to license their essential patents on RAND terms to anyone who requests a license. Such rules help to insure that standards do not allow essential patent owners to extort their competitors or prevent them from entering the marketplace.

B. Motorola’s Statements to the IEEE and the ITU

This lawsuit involves two standards—the IEEE 802.11 wireless local area network (“WLAN”) Standard (“802.11 Standard”) and the ITU H.264 advanced video coding technology standard (“H.264 Standard”).² (*See generally* Compl. (Dkt. # 1); Am. Compl. (Dkt. # 53).) The IEEE’s standard setting process is governed by its Intellectual Property Rights Policy (the “IEEE Policy”). (*See generally* IEEE Policy (Dkt. #79-1).) The IEEE

² The ITU developed the H.264 Standard jointly with two other standard setting organizations—the International Organization for Standardization and the International Electrotechnical Commission. (Partial S.J. Order (Dkt. #188) at 3.)

1 Policy provides that “IEEE standards may be drafted in terms that include the use of
2 Essential Patent Claims.” (*Id.* at 18 (Section 6.2).) The IEEE Policy defines the term
3 “Essential Patent Claim” as one or more claims in an issued patent (or pending patent
4 application) that are “necessary to create a compliant implementation of either mandatory
5 or optional portions of the normative clauses of the [Proposed] IEEE Standard” (*Id.*)

6 If the IEEE learns that an IEEE standard or a proposed IEEE standard may require
7 the use of an essential patent claim, the IEEE requires the patent holder to either state that
8 it is not aware of any patents relevant to the IEEE standard or to provide the IEEE with a
9 Letter of Assurance. (*Id.*) Any such Letter of Assurance must include either (1) a
10 disclaimer to the effect that the patent holder will not enforce the “Essential Patent
11 Claims,” or (2):

12 [a] statement that a license for a compliant implementation of the standard
13 will be made available to an unrestricted number of applicants on a
14 worldwide basis without compensation or under reasonable rates, with
reasonable terms and conditions that are demonstrably free of any unfair
discrimination. . . .

15 (*Id.*) If the IEEE cannot obtain a Letter of Assurance, it refers the essential patent to the
16 IEEE Patent Committee. (*Id.*)

17 Motorola has submitted numerous Letters of Assurance to the IEEE in connection
18 with the 802.11 Standard stating that it “will grant” or “is prepared to grant” a license
19 under RAND terms for its patents essential to the 802.11 Standard. (*See generally* IEEE
20 LOAs (Dkt. # 79-2).) A typical Motorola Letter of Assurance to the IEEE provides, in
21 relevant part:
22

1 The Patent Holder will grant [or is prepared to grant] a license under
2 reasonable rates to an unrestricted number of applicants on a worldwide,
3 non-discriminatory basis with reasonable terms and conditions to comply
4 with the [Proposed] IEEE Standard.

5 (*See generally id.*) Such Letters of Assurance are irrevocable once submitted and
6 accepted by the IEEE and apply from the date the standard is approved until the date the
7 standard is withdrawn. (IEEE Policy at 19.)

8 Like the IEEE, the ITU has established a policy (the “ITU Policy”) with respect to
9 holders of patents “essential” to implementing a standard. (*See* ITU Policy (Dkt. # 79-
10 3).) Such patent holders must file with the ITU a “Patent Statement and Licensing
11 Declaration” declaring whether they (1) will grant licenses free of charge on a RAND
12 basis; (2) will grant licenses on RAND terms; or (3) are not willing to comply with either
13 of the first two options. (*See id.* at 9-12.) If a patent holder is not willing to comply with
14 either of the first two options, the ITU standard will not include provisions depending on
15 the patent. (*Id.* at 9.)

16 Motorola has sent numerous declarations to the ITU stating that they will grant
17 licenses on RAND terms for its patents essential the H.264 Standard. (*See generally* ITU
18 Declarations (Dkt. # 79-4).) A typical declaration by Motorola to the ITU provides, in
19 relevant part:

20 The Patent Holder will grant a license to an unrestricted number of
21 applicants on a worldwide, non-discriminatory basis and on reasonable
22 terms and conditions to use the patented material necessary in order to

1 manufacture, use, and/or sell implementations of the above ITU-T
 Recommendation | ISOC/IEC International Standard.³

2
 3 (E.g., *id.* at 2.)

4 **C. Motorola's Offer Letters to Microsoft**

5 On October 21, 2010, Motorola sent Microsoft a letter (the "October 21 Letter")
 6 that read in pertinent part:

7 This letter is to confirm Motorola's offer to grant Microsoft a worldwide
 8 non-exclusive license under Motorola's portfolio of patents and pending
 9 applications having claims that may be or become Essential Patent Claims
 10 (as defined in section 6.1 of the IEEE bylaws) for a compliant
 11 implementation of the IEEE 802.11 Standards. . . . Motorola offers to
 12 license the patents under reasonable and non-discriminatory terms and
 conditions ("RAND"), including a reasonable royalty of 2.25% per unit for
 each 802.11 compliant product, subject to a grant back license under the
 802.11 essential patents of Microsoft. As per Motorola's standard terms,
 the royalty is calculated based on the price of the end product (e.g., each
 Xbox 360 product) and not on component software (e.g., Windows Mobile
 Software).

13 (10/21/10 Offer Ltr. at 2.) Then, on October 29, 2010, Motorola sent a similar letter (the
 14 "October 29 Letter") regarding the H.264-related patents, stating:

15 Motorola offers to license the patents on a non-discriminatory basis on
 16 reasonable terms and conditions ("RAND"), including a reasonable royalty,
 17 of 2.25% per unit for each H.264 compliant product, subject to a grant back
 18 license under the H.264 patents of Microsoft, and subject to any Motorola
 19 commitments made to JVT in connection with an approved H.264
 20 recommendation. As per Motorola's standard terms, the royalty is
 21 calculated based on the price of the end product (e.g., each Xbox 360
 22 product, each PC/laptop, each smartphone, etc.) and not on component
 software (e.g., Xbox 360 system software, Windows 7 software, Windows
 Phone 7 software, etc.)

³ The declaration to the ITU also states that "negotiations of licenses are left to the parties
 concerned and are performed outside the ITU-T | ISO/IEC." (ITU Declarations at 2.)

1 (10/29/10 Offer Ltr. at 2.) Motorola attached to its October 29 Letter a non-exhaustive
2 list of patents it offered to license to Microsoft. (*See id.*)

3 On November 9, 2010, Microsoft filed its complaint initiating this action, and on
4 February 23, 2011, Microsoft filed an amended complaint. (Compl.; Am. Compl.)
5 Microsoft contends that the October 21 and October 29 Letters seek unreasonable royalty
6 rates and therefore breach Motorola's obligations to the IEEE and the ITU to grant
7 licenses on RAND terms. (Am. Compl. at 21, 22.) Microsoft alleges claims against
8 Motorola for breach of contract and promissory estoppel.⁴ (*Id.*) In its prayer for relief,
9 Microsoft seeks, *inter alia*, (1) a declaration that it is entitled to a license on RAND terms
10 from Motorola for all patents subject to Motorola's commitments to the IEEE (through
11 Letters of Assurance) and to the ITU (through declarations), and (2) a judicial accounting
12 of a RAND royalty rate for Motorola's patents subject to these commitments. (*Id.* at 25
13 (Prayer for Relief).)

14 In response, Motorola asserted affirmative defenses and counterclaims. (*See*
15 Motorola Answer (Dkt. # 68).) Motorola's counterclaims, which are relevant to the
16 instant motion for preliminary injunction, seek a declaratory judgment that (1) it has not
17 breached any RAND obligations, and (2) Microsoft repudiated and/or rejected the
18 benefits of Motorola's RAND obligations, and therefore Microsoft is not entitled to a

21 ⁴ Microsoft's action against Motorola also included claims for waiver and declaratory
22 judgment, but the court's June 1, 2011 order dismissed both of those claims, leaving only the
breach of contract and promissory estoppel claims. (Dkt. # 66 at 12.)

1 license to Motorola's patents related to the H.264 and 802.11 Standards. (*Id.* ¶¶ 61-75
2 (Counterclaims).)

3 **D. The Court's Prior Rulings**

4 In a February 27, 2012 order, the court ruled that Motorola's Letters of Assurance
5 to the IEEE and Motorola's declarations to the ITU create enforceable contracts between
6 Motorola and the respective standard setting organization to license its essential patents
7 on RAND terms. (2/27/12 Order (Dkt. # 188) at 10.) Additionally, the court found that
8 as a member of the IEEE and the ITU and a prospective user of both the H.264 Standard
9 and the 802.11 Standard, Microsoft is a third-party beneficiary of the contract. (*Id.*)

10 Following the court's February 27, 2012 order, the parties moved for summary
11 judgment. Microsoft moved for summary judgment that Motorola breached its
12 agreements to license its standard essential patents on RAND terms by offering to license
13 its standard essential patents at 2.25% of Microsoft's end product price (a blatantly
14 unreasonable offer according to Microsoft) in the October 21 and October 29 Letters.
15 (Microsoft Mot. for SJ (Dkt. # 236).) Motorola moved for summary judgment that
16 Microsoft had repudiated its rights as a third-party beneficiary to a RAND license by
17 initiating this lawsuit without first applying for and negotiating towards a patent license
18 for Motorola's standard essential patents. (Motorola Mot. for SJ (Dkt. # 231).)

19 In its June 6, 2012 order on the parties' respective motions, the court again
20 examined the obligations of both Motorola and Microsoft originating from Motorola's
21 statements to both the ITU and the IEEE regarding its standard essential patents. In this
22 order, the court reaffirmed its conclusion that Motorola's statements to the ITU and IEEE

1 did indeed constitute binding agreements to license its essential patents on RAND terms.
 2 (6/6/12 Order (Dkt. # 335) at 13.) The court also reaffirmed its decision that Microsoft
 3 was a third-party beneficiary to those agreements and has a right to a RAND license for
 4 Motorola's standard essential patents.⁵ (*Id.* at 14.) With respect to Microsoft's motion
 5 for summary judgment, the court determined that although Motorola's agreements with
 6 the ITU and IEEE required initial offers for its standard essential patents to be made in
 7 good faith, issues of fact existed as to whether Motorola's October 21 and 29 Letters
 8 complied with its good faith obligations. (*Id.* at 21-28.) The court further explained that
 9 before a jury could decide whether Motorola's offers for its standard essential patents
 10 breached its duty of good faith, the court would need to determine a true RAND royalty
 11 rate for purposes of comparison. (*Id.* at 25.) Accordingly, the court denied Microsoft's
 12 motion. (*Id.* at 28.) The court also denied Motorola's motion for summary judgment and
 13 held that applying for a patent license and negotiating towards a patent license were not
 14 conditions precedent to Motorola's obligations to grant licenses on RAND terms. (*Id.* at
 15 16-21.)

16 After its June 6 order, the court held conferences with the parties with the goal of
 17 moving the case towards trial. On June 7, 2012, the court indicated to the parties its

18 ⁵ Subsequent to this court's June 6, 2012 order, the Ninth Circuit issued an opinion on
 19 Motorola's interlocutory appeal of this court's grant of an anti-suit injunction of Motorola's
 20 enforcement of a German injunction against Microsoft for patent infringement regarding two of
 21 Motorola's standard essential patents. *Microsoft Corp. v. Motorola, Inc.*, --- F.3d ----, 2012 WL
 22 4477215 (9th Cir. Aug. 28, 2012). In its opinion, the Ninth Circuit held that the "district court's
 conclusions that Motorola's RAND declarations to the ITU created a contract enforceable by
 Microsoft as a third-party beneficiary (which Motorola concedes), and that this contract governs
 in some way what actions Motorola may take to enforce its ITU standard-essential patents
 (including the patents at issue in the German suit), were not legally erroneous." *Id.* at *9.

1 intention to conduct a trial on Microsoft's breach of contract claims, commencing
2 November 13, 2012. (6/7/12 Tr. (Dkt. # 348) at 67-71.) The court further indicated that
3 a trial on Microsoft's breach of contract claim would include adjudication of a RAND
4 royalty rate for Motorola's standard essential patents so that a finder of fact could
5 consider this adjudicated rate in deciding whether Motorola's offers breached its duty to
6 offer in good faith. (*Id.*) The court sought input from the parties as to the structure of the
7 trial. On June 14, 2012, both Microsoft and Motorola agreed to determine the RAND
8 royalty rate by bench trial. (6/14/12 Tr. (C11-1408JLR (Dkt. # 365)) at 42-43.) On that
9 same day, Microsoft submitted that a bench trial was likewise appropriate for its breach
10 of contract claim, but Motorola sought additional time to determine whether it desired a
11 jury or bench trial for the breach of contract claim. Accordingly, on June 14, 2012, the
12 court issued a scheduling order setting trial for determination of a RAND royalty rate to
13 commence on November 13, 2012 with the possibility of including the breach of contract
14 claim in the event the parties agreed to submit that claim to a bench trial. (Scheduling
15 Order (Dkt. # 346).)

16 Over three weeks later, during a July 9, 2012 status conference, Motorola
17 informed the court that it sought a jury trial with respect to Microsoft's breach of contract
18 claim.⁶ (7/9/12 Tr. (Dkt. # 359) at 5.) Thereafter, the court adopted a two-part approach.

21 ⁶ Also during the July 9, 2012 status conference, Motorola indicated its intention to file
22 the present motion on the basis that the court was employing an improper construction of
Motorola's agreements with the ITU and IEEE. (7/9/12 Tr. at 4-5.) Despite having already
ruled on two summary judgment motions substantially involving construction of Motorola's

1 The court would first determine a RAND royalty rate (or RAND royalty range) at the
2 November 13, 2012 trial, and second, with this determination as guidance, a jury would
3 hear Microsoft's breach of contract claim.

4 **III. DISCUSSION**

5 In its present motion titled "motion for partial summary judgment dismissing
6 Microsoft's claim for a RAND patent license agreement to be determined *ab initio* by the
7 court," Motorola seeks summary judgment on "Microsoft's request that the court make" a
8 license agreement for Motorola's standard essential patents (Mot. at 6.) In support of the
9 relief it seeks, Motorola makes two central arguments: (1) no licensing agreement
10 between Microsoft and Motorola currently exists and it would be improper for the court
11 to create a contract for the parties (*id.* at 17, 22.); and (2) Microsoft "never pleaded or
12 requested that the [c]ourt create *ab initio* a Motorola/Microsoft patent license, or material
13 terms for such a license" (*id.* at 16-17). In addition to its requested relief, Motorola asks
14 the court to modify the issue for the November 13 trial to determine—instead of the
15 RAND royalty rate—the breach of contract claim. (*Id.* at 26-27.) Motorola's requests
16 are examined in turn below.

17 **A. Summary Judgment Standard**

18 Summary judgment is appropriate if the evidence, when viewed in the light most
19 favorable to the non-moving party, demonstrates "that there is no genuine dispute as to
20 any material fact and the movant is entitled to judgment as a matter of law." Fed. R. Civ.

21
22 agreements with the ITU and IEEE, the court permitted Motorola to file the present motion. (*Id.*
at 9.)

P. 56(a); *see Celotex Corp. v. Catrett*, 477 U.S. 317, 322 (1986); *Galen v. Cnty. of L.A.*, 477 F.3d 652, 658 (9th Cir. 2007). The moving party bears the initial burden of showing there is no genuine issue of material fact and that he or she is entitled to prevail as a matter of law. *Celotex*, 477 U.S. at 323. If the moving party meets his or her burden, then the non-moving party “must make a showing sufficient to establish a genuine dispute of material fact regarding the existence of the essential elements of his case that he must prove at trial” in order to withstand summary judgment. *Galen*, 477 F.3d at 658. Here, cross-motions for summary judgment are at issue. The court “evaluate[s] each motion separately, giving the nonmoving party in each instance the benefit of all reasonable inferences.” *ACLU of Nev. v. City of Las Vegas*, 466 F.3d 784, 790-91 (9th Cir. 2006) (citations omitted); *see also Friends of Columbia Gorge, Inc. v. Schafer*, 624 F. Supp. 2d 1253, 1263 (D. Or. 2008).

B. A License Agreement Between Microsoft and Motorola

As stated, Motorola asserts that it would be improper for the court to fashion a license agreement between Microsoft and Motorola for Motorola’s standard essential patents because no license agreement currently exists and Microsoft never requested such relief. (*See generally* Mot.) The court disagrees with Motorola, but nevertheless stresses that the November 13 trial will not create a licensing agreement, but will determine a RAND range, as well as a specific RAND rate, for Motorola’s standard essential patents.

1. Motorola’s RAND Agreements and Obligations Thereunder

As the court previously held, Motorola’s declarations to the ITU and IEEE constitute binding agreements to license its essential patents on RAND terms, and

1 Microsoft is a third-party beneficiary to those agreements and therefore entitled to a
2 license of Motorola's essential patents on RAND terms. (6/6/12 Order at 13-14.) Indeed,
3 Motorola has agreed that Microsoft is a third-party beneficiary to Motorola's assurances
4 to license its essential patents on RAND terms.⁷ Nevertheless, Motorola argues, in part,
5 that no license agreement exists between Microsoft and Motorola because Motorola's
6 commitments to the ITU and IEEE only "bind Motorola to engage in bilateral, good-faith
7 negotiations leading to RAND terms," but do not require Motorola to grant licenses on

8
9 ⁷ For instance, the following discussion transpired during a February 13, 2012 status
10 conference with the court:

11 THE COURT: Is the first part of that sentence also accurate, that you entered into
12 binding contractual commitments with IEEE and ITU, committing those to that RAND
13 process?

14 MR. JENNER (counsel for Motorola): Well, yeah, that is really what the issue is, your
15 Honor, in terms of what the assurance is. The assurance is that we would—that Motorola
16 agreed to license those standard essential patents on RAND terms.

17 THE COURT: All I am asking is—I think you just agreed with me. I am not asking you
18 if you did it or not, I am just asking you if that's what you are supposed to do. I think the
19 answer to that is yes.

20 MR. JENNER: Yes. Enter into a license on RAND terms, that's right.

21 THE COURT: The second point that Microsoft asked the court to declare is, and I will
22 quote, "Microsoft is a third-party beneficiary of Motorola's commitment to the SSOs."
Once again, let's stay away from the precise terms that were offered and asked as a
conceptual matter. I think there is also no disagreement on that. Mr. Jenner, am I correct
on that?

MR. JENNER: Your Honor, that is correct, we would agree that Microsoft can fairly
claim to be the third-party beneficiary of the assurance.

(2/13/2012 Tr. (Dkt. # 242) at 4-5.)

1 RAND terms. (Mot. at 18-20.) This is not what the court held in its June 6, 2012 order,
2 and the court declines to reach that conclusion in this order.⁸ Instead, after examining the
3 language of Motorola's agreements with the ITU and IEEE, the court held that Microsoft
4 is entitled to a RAND license. (6/6/12 Order at 13-14.) To be clear, having previously
5 determined that Microsoft has not repudiated or revoked this right, the court's prior
6 holding means that Motorola must grant Microsoft a RAND license to its standard
7 essential patents.

8 In fact, the court has already twice rejected Motorola's contention that Motorola's
9 agreements with the ITU and IEEE only require it to negotiate towards a RAND license.
10 (*See* 6/1/11 Order (Dkt. # 66) at 5 ("There is no legal basis for Motorola's contention that
11 Microsoft was required to negotiate the precise license terms prior to filing a breach of
12 contract claim."); 6/6/12 Order at 21 ("Motorola has committed to license its standard
13 essential patents on RAND terms, and, if a third-party beneficiary to that commitment
14 does not believe Motorola is meeting its obligations thereto, the courthouse may be the
15 only place to resolve the differences.")) Certainly, Motorola's commitments to the IEEE
16 and ITU require that it negotiate in good faith towards RAND terms, but those
17 commitments go one step further and require Motorola to eventually grant a license on
18 RAND terms. Thus, the RAND license must eventually execute between the parties, and
19 interminable good faith negotiation by Motorola will not uphold its end of the bargain.
20 As the court previously explained, any other conclusion would be contrary to the purpose

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22 ⁸ Motorola has provided the court with no basis for revisiting the court's prior
interpretation of Motorola's agreements with the ITU and IEEE. (*See generally* Mot.)

1 of Motorola's commitments to the IEEE and ITU, which is to ensure widespread
 2 availability to standard essential patents to all implementers on RAND terms.⁹ (6/6/12
 3 Order at 17-18; *see also, e.g.*, ITU Policy at 9 (stating that the objective of
 4 recommendations "is to ensure compatibility of technologies and systems on a worldwide
 5 basis. To meet this objective, which is in the common interest of all those participating,
 6 it must be insured that [recommendations] . . . are accessible to everybody").)

7 Having made the determination that Motorola must grant a RAND license for its
 8 essential patents, the court is left with the inescapable conclusion that a forum must exist
 9 to resolve honest disputes between the patent holder and implementer as to what in fact
 10 constitutes a RAND license agreement. Here, the courthouse may be the only such
 11 forum. Indeed, the ITU and IEEE policies both explicitly disavow that either
 12 organization will assist the parties in determining a RAND agreement or resolving
 13 disputes of the parties. (IEEE Policy at 19 (The IEEE is not responsible "for determining
 14 whether any licensing terms or conditions provided in connection with submission of a
 15 Letter of Assurance, if any, or in any licensing agreements are reasonable and non-
 16 discriminatory.")).) Thus, unless the parties on their own can come to an agreed RAND

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 18 ⁹ In making this determination, the court is well aware of Motorola's concern that
 19 because RAND terms are complex and specific to the parties involved, at the time a standard
 20 essential patent holder makes an initial offer, he or she may not have sufficient information to
 21 offer on RAND terms. The court agrees with Motorola insofar as patentee may have a legitimate
 22 concern that mistakenly offering its essential patents at a non-RAND rate could lead to an
 imminent lawsuit; and, such a concern on the part of the patentee would similarly defeat the
 purpose behind the ITU and IEEE agreements of widespread availability. But, this is precisely
 the reason the court previously held that initial offers for standard essential patents need not be
 on RAND terms, but only must be made in accordance with good faith. (6/6/12 Order at 24-25.)
 Moreover, the simple fact that offers for essential patents need not comport with RAND does not
 excuse Motorola from eventually honoring its commitments to grant licenses on RAND terms.

1 licensing agreement, the courthouse acts as an appropriate forum to resolve disputes over
2 legal rights.

3 Nevertheless, although Motorola agrees that Microsoft has a legal right to a
4 RAND license agreement for Motorola's essential patents, Motorola argues that the court
5 cannot enforce this right by creating that very license agreement. (*See generally* Mot.)
6 In particular, Motorola argues that the court cannot create a license agreement between
7 the parties because no license agreement currently exists and this court cannot "make a
8 contract for the parties—that is, a contract different from that actually entered into by [the
9 parties]." (Mot. at 22 (citing among other cases *Chaffee v. Chaffee*, 145 P.2d 244, 252
10 (Wash. 1943).) The court is not persuaded by this argument because it is not relevant to
11 the circumstances before us. In this matter, the court is not examining an existing
12 agreement to modify its terms or impose missing terms, but instead, the court is enforcing
13 Microsoft's legal right to a RAND license agreement for Motorola's standard essential
14 patents. Moreover, Motorola's view of its obligations leads to an illogical result. Here,
15 Motorola agrees that Microsoft, as a third-party beneficiary, has a legal right to a RAND
16 license agreement for Motorola's essential patents, but nevertheless asserts that the court
17 cannot enforce this right by creating that very license agreement. Without the ability to
18 create (or at the very least enforce creation of) the very license Motorola has promised to
19 grant, Motorola's obligations would be illusory. The court finds such a result illogical
20 and declines to adopt Motorola's position. *See Eurick v. Pemco Ins. Co.*, 738 p.2d 251,
21 252 (Wash. 1987) (contract interpretation should not produce an absurd result).
22

Indeed, in its recent opinion affirming this court's grant of an anti-suit injunction related to a German action between Motorola and Microsoft, the Ninth Circuit briefly examined obligations and remedies of Motorola's commitments to the ITU:

In sum, whether or not the district court ultimately determines that Motorola breached its contract with the ITU (it may or may not have), *it is clear that there is a contract, that it is enforceable by Microsoft, and that it encompasses not just U.S. patents but also the patents at issue in the German suit.* Moreover, even if Motorola did not breach its contract, then, however the RAND rate is to be determined under the ITU standards, injunctive relief against infringement is arguably a remedy inconsistent with the licensing commitment. That the licensing agreement is not itself a license according to the ITU Policy does not detract from this conclusion. *The question is how the commitment to license is to be enforced, not whether the commitment itself is a license.*

Microsoft Corp. v. Motorola, Inc., 2012 WL 4477215, at *10 (emphasis added). Thus, the Ninth Circuit made clear that Microsoft has an enforceable legal right to a RAND license from Motorola. Because Microsoft's right to a RAND license results from its third-party beneficiary status, the right exists irrespective of whether a licensing agreement exists between Motorola and Microsoft. Here, this court has been asked to resolve a dispute concerning whether Motorola has honored its obligations to license its essential patents on RAND terms. Although no specific remedy has been determined, and certainly no remedy has been proven, the court declines to dismiss from Microsoft's possible remedies the very license agreement to which the court has already determined it is entitled.

2. Microsoft's Pleadings Regarding A RAND License Agreement

Motorola asserts that because Microsoft never pleaded that the court create a standard essential patent license agreement between Microsoft and Motorola, such relief

1 should not now be available. (Mot. at 16-17.) Again, the court reiterates that the
2 November 13 trial will not result in the creation of a RAND license agreement, but
3 instead will determine a RAND royalty range and a RAND royalty rate. With that said,
4 the court disagrees with Motorola's assertion that it cannot create (or enforce the creation
5 of) a RAND license agreement because Microsoft did not explicitly request such relief in
6 its pleadings.

7 In this complaint, Microsoft sought, *inter alia*, (1) a judicial accounting of a
8 RAND royalty rate for Motorola's standard essential patents; (2) a decree that Microsoft
9 was entitled to license Motorola's essential patents on RAND terms, and (3) a decree
10 barring Motorola from demanding excessive royalty rates for its standard essential
11 patents. (Compl. ¶ 9, Prayer for Relief.) Additionally, Microsoft has repeatedly
12 represented to the court that it believes it needs a license and that it is ready and willing to
13 accept a license to Motorola's essential patents on RAND terms.¹⁰ (*See, e.g.*, Microsoft
14 Reply to Mot. Dismissing Inj. Relief (Dkt. # 152) at 9 ("The indisputable evidence is that
15 Microsoft is seeking a license on RAND terms—in this very action.").)

16 Although Motorola is correct that Microsoft does not explicitly seek a RAND
17 licensing agreement in its prior complaints, Motorola's position in this litigation that (to
18 meet its obligations under its agreements with the ITU and IEEE) it need only negotiate
19 towards a RAND license requires that court creation of a RAND license agreement
20 remain an available form of relief. Were this not the case, the court could grant, and in

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22 ¹⁰ As this court stated in its June 6, 2012 order, this court will hold Microsoft to its
statement through the course of this litigation. (6/6/12 Order at 20, FN. 7.)

1 fact has granted, Microsoft relief that it is entitled to a RAND license, but then have no
2 ability to ensure that Microsoft does in fact receive the RAND license. In other words, at
3 the end of the case, the parties could return to the bargaining table precisely where they
4 started—negotiating and disagreeing over what in fact constitutes a RAND license
5 agreement. Therefore, while Microsoft did not explicitly request a RAND license
6 agreement, Motorola’s position in this litigation inherently requires the availability of
7 such relief. Accordingly, the court disagrees with Motorola that Microsoft’s claim for a
8 RAND license agreement be dismissed for failure to plead such relief.

9 **C. The November 13 Trial**

10 Motorola asserts that instead of determining a RAND royalty range and rate at the
11 November 13 trial, the court should try the breach of contract claim, apparently with a
12 jury. (Mot. at 26.) According to Motorola’s proposal, if the jury finds no breach of
13 contract, the court should leave the parties to continue negotiations “until they reach an
14 agreement or impasse.” (*Id.*) On the other hand, if a jury finds Motorola’s October 21
15 and 29 Letters breached its agreements, the jury can assess damages and the court can
16 then review the last offer made by Motorola to Microsoft before trial to determine if
17 Motorola’s proposed licensing terms are consistent with RAND. (*Id.*) Additionally,
18 Motorola asserts that such review of Motorola’s proposed licensing terms is consistent

1 with the German Orange Book procedures, which Motorola argues should be employed
2 in this case.¹¹ (*Id.*)

3 For the reasons below, the court declines to adopt Motorola's proposal for the
4 November 13 trial. First, as the court has already stated, for a jury to resolve the question
5 of whether Motorola's October 21 and 29 Letters breached its duty to make good faith
6 offers, the court must first determine a RAND royalty range to assist a jury in comparing
7 Motorola's offers to a true RAND range. Certainly, a jury could make a determination of
8 the RAND royalty rate (or range) on its own, but here the parties have both explicitly
9 asked the court, and not the jury, to adjudicate that issue. Second, Motorola's suggested
10 alternative will not move this litigation forward. Motorola suggests that the court first try
11 the breach of contract issue, and in the event that no breach is found, the court order the
12 parties to return to the negotiation table until they reach agreement or impasse.
13 Importantly, regardless of whether Motorola has breached its contractual agreement to
14 make good faith offers, Motorola is obligated to grant Microsoft a RAND license.
15 Presumably the parties are before the court because they currently cannot agree to RAND
16 licensing terms. In fact, Motorola represents in its brief that the parties continue to
17 negotiate with respect to a RAND license. The court finds that a return to the negotiation
18 table, without any adjudication as to what in fact constitutes a RAND royalty rate, will
19 accomplish nothing more than delay.

20
21 ¹¹ Based on the parties' briefings to this point, the German Orange Book is a procedure
22 employed by German patent courts to oversee the propriety of patent license agreements in
RAND circumstances. (See *generally* Motorola Opp. to Microsoft Mot. for Temp. Restraining
Ord. (Dkt. # 248) at 10-11 (describing German Orange Book procedure).)

1 Third, and finally, the court does not find that the German Orange Book remedy is
2 akin to the situation presented here. Here, the court has determined that Motorola is
3 contractually obligated to license its essential patents at a RAND rate. From the briefing
4 of the parties, it is the court's understanding that the German Orange Book process
5 allows a court to review a patentee's or alleged infringer's offer regarding royalty rate to
6 determine whether the offer is reasonably within the RAND range. (Motorola Opp. to
7 Microsoft Mot. for Temp. Restraining Ord. at 10-11.) In other words, so long as
8 Motorola's offer is reasonably within a RAND range, that offer will constitute the RAND
9 royalty rate. The court finds that such *ex post* oversight of Motorola's offer fails to
10 comport with what this court has found to be Motorola's obligations under its
11 commitments to the ITU and IEEE. It appears to the court that under Motorola's
12 suggested procedure for determining a RAND rate, a skilled patentee could make offers
13 at the high end of the RAND range, which the court would then be obligated to bless.
14 Such a procedure does not comport with the stated purpose (widespread accessibility to
15 essential patents) behind the policies of the IEEE and ITU in requiring RAND licenses.
16 Simply put, based on Motorola's contractual obligations, if the parties cannot agree on a
17 RAND rate, the court may be called upon to determine that rate.¹²

18 Accordingly, the court declines to adopt Motorola's proposal that the November
19 13 trial consist of Microsoft's breach of contract claim. Instead, the November 13 trial

21 ¹² Moreover, Motorola's own suggested procedure—where the court examines *ex post*
22 whether Motorola's last offer was in fact within the RAND range—inherently requires
determination of at least a RAND royalty range.

1 will resolve two discrete issues: (1) a RAND royalty range for Motorola's standard
 2 essential patents; and (2) a RAND royalty point for Motorola's standard essential patents.
 3 Adjudication of both of these issues is necessary to resolve disputes in this litigation, and
 4 Motorola agrees that these issues are within the authority of this court to decide.¹³
 5 Determination of a RAND royalty range will provide the jury guidance in deciding
 6 whether Motorola's October 21 and 29 Letters breached Motorola's duty to make offers
 7 for its standard essential patents in good faith.¹⁴ Additionally, determination of a RAND
 8 royalty range will provide the court guidance in determining a precise RAND royalty (a

9
 10 ¹³ For example, at the April 11, 2012 hearing for Microsoft's motion for an anti-suit
 11 injunction, counsel for Motorola stated that this court has the ability to determine a RAND rate
 12 on a worldwide basis:

12 You may agree eventually with the German court. You may not. If it isn't
 13 RAND you may look at that and dismiss it and say, I don't think it's RAND in
 14 Germany, *I'm going to set a different rate.* And to the extent that my rate is lower
 15 than the German rate, I'm going to order Motorola to pay back to Microsoft the
 16 differential that it, quote/unquote, overpaid in Germany.

17 *****

18 And to the extent Your Honor finds something different from Germany that you
 19 don't agree with, Your Honor will have the opportunity, should you deem it
 20 appropriate, simply to tell Motorola to pay back the difference in Germany.
 21 That's not an encroachment on your jurisdiction. I guess that goes to the comity
 22 part as well. That's not an encroachment on your jurisdiction. You will simply
 find that the court didn't determine a RAND rate in Germany. *You did determine
 a RAND rate in Germany, to the extent that Motorola ought to pay some German
 money back to Microsoft.*

(4/11/12 Tr. (Dkt. # 276) at 26, 28 (emphases added).)

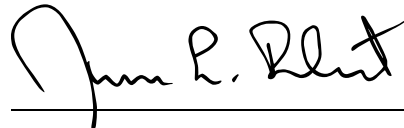
20 ¹⁴ Both parties appear to agree that RAND is not a set point but a range that may vary
 21 based on the circumstances of the individual parties to a RAND agreement. (Motorola Resp. to
 22 Microsoft Mot. for SJ (Dkt. # 274) at 9-11 (discussing agreement of parties regarding complexity
 of RAND terms and that RAND terms afford parties flexibility to come to individualized
 agreements).)

1 specific request contained in Microsoft's complaint), which necessarily must fall within
2 that range.

3 **IV. CONCLUSION**

4 Based on the foregoing, the court DENIES Motorola's motion for partial summary
5 judgment dismissing Microsoft's claim that the court create a license agreement for
6 Motorola's standard essential patents (Dkt. # 362). This matter will proceed to the
7 November 13, 2012 trial under the schedule currently in place and to adjudicate issues in
8 accord with this order.

9 Dated this 10th day of October, 2012.

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13 JAMES L. ROBART
14 United States District Judge
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